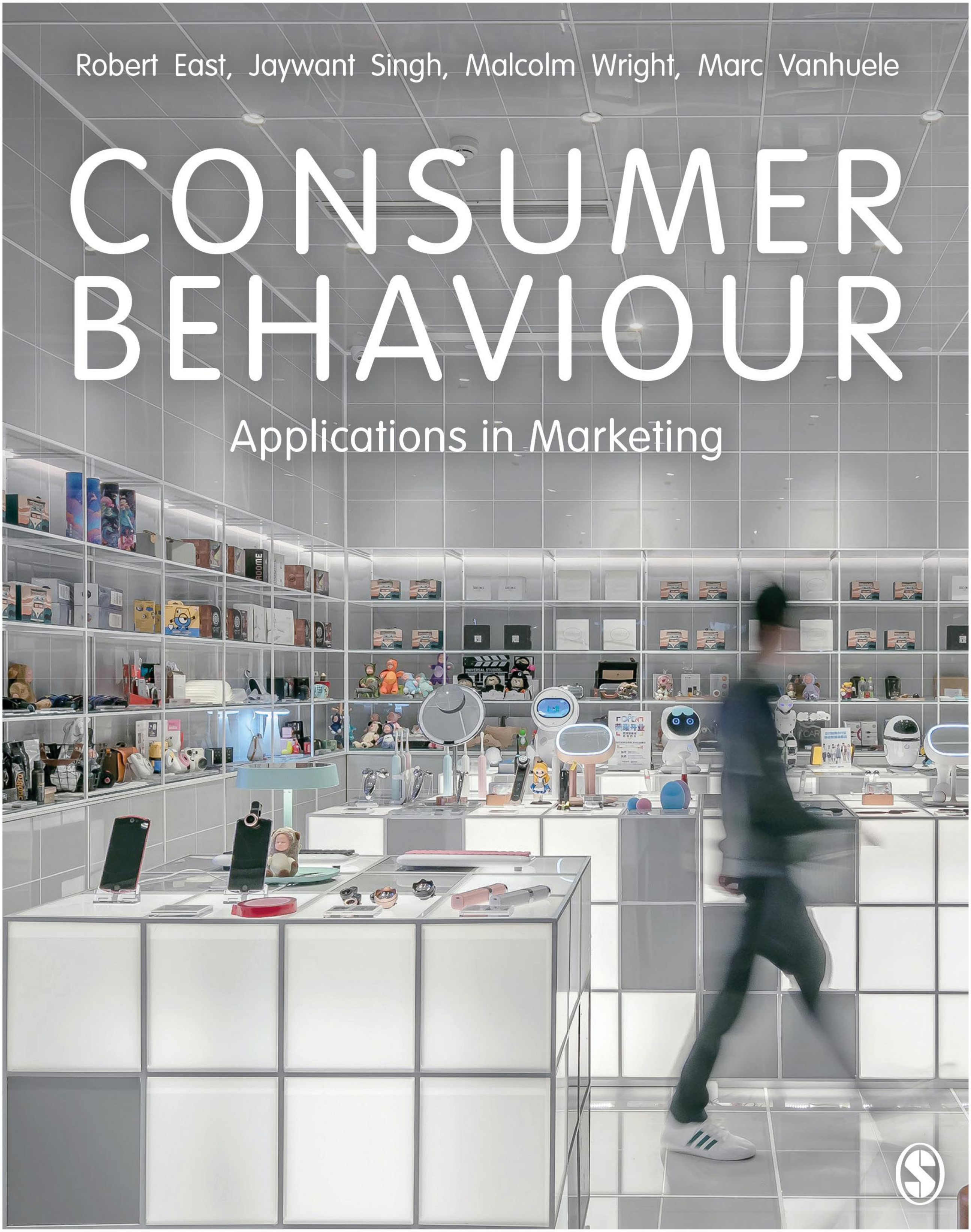
Robert East, Jaywant Singh, Malcolm Wright, Marc Vanhuele

CONSUMER BEHAVIOUR

Applications in Marketing



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Brief Contents

Extended Contents

About the authors

Robert East is Emeritus Professor at Kingston Business School, Kingston University, London. He trained as a social psychologist and is a postgraduate of London Business School. His research has mainly focused on word-of-mouth patterns, where his new evidence has shown that some widely-held beliefs are mistaken. As a teacher of consumer behaviour, he has been keen to deliver knowledge that is useful to students while not oversimplifying the subject. This book reflects his iconoclastic research and his commitment to a curriculum that is both intellectual and useful.

Jaywant Singh is Professor of Marketing at Southampton Business School, University of Southampton, United Kingdom, where he teaches brand management, consumer behaviour and marketing communications. He applies quantitative research methods to understand how and why people buy goods and services, through the lenses of brand management, ethical consumption, social media and marketing communications. He has published in leading academic journals and regularly presents his research at international conferences. In his teaching, he endeavours to deliver theoretically and empirically grounded research knowledge that has direct applications in marketing and business.

Malcolm Wright is Professor of Marketing at Massey University, New Zealand, and Adjunct Professor at the Ehrenberg-Bass Institute of the University of South Australia. He applies empirical principles to marketing problems and has made interrelated discoveries about brand loyalty, the use of probability scales, new product forecasting and optimizing the advertising budget. He has also published many articles critically examining the foundations of popular marketing knowledge.

Marc Vanhuele holds a PhD from UCLA and is Professor of Marketing and Associate Dean at HEC Paris. As an expert in consumer information processing, his research focuses on how consumers treat price information. A second field of research is how marketing managers can improve their decision making through better use of quantitative information on the consumer's mindset. His research has been published in leading academic journals. He also works as a consultant to consumer goods and market research companies.

Preface

READERSHIP AND SCOPE

We have designed this book to support courses in consumer behaviour at Master's level. It is also suited to more advanced teaching at first-degree level. Our intended audience is those who see consumer behaviour as a research-based discipline that addresses the problems raised by marketing and consumer policy. The problems we explore are found in all advanced and emerging economies, and for this reason we believe that the book will be useful throughout the world.

This new edition updates the subject matter of the 2017 (third) edition, reflecting changes in the field in recent years, but its structure remains unchanged. The book is selective in the research it covers, dealing in some detail with the areas chosen. As before, the chapters are quite short and are intended to support students who will also be reading original research papers. In updating and revising the book, we found that we could often simplify and clarify the text. The result is a book that is easier to read and much the same length as the previous edition.

Consumer Behaviour: Applications in Marketing stresses well-researched aspects of consumer behaviour that are of widespread importance. Following the Introduction, we describe the patterns of customer purchasing that are usually observed in market economies and the way those patterns can be explained and used in practical marketing applications. We then look at research that has illuminated our understanding of consumer decision making and show how this understanding can be used by marketers and public policymakers. The last section of the book deals with the observed consumer response to market intervention and covers research findings on price, the retail context, word of mouth and advertising.

APPROACH

Most textbooks on consumer behaviour are extensive and well illustrated but may present the subject in a rather uncritical manner. Often, the treatment illustrates fashionable topics rather than providing evidence that helps us understand long-standing marketing problems. Such books do not make sufficient call on the expanding research in our field, and when they do cite research may give limited attention to the uncertainties or opposing views that persist in our discipline. In practice, there are competing findings and explanations in all areas of consumer behaviour and marketing, and we have tried to recognize these and discuss their relative merits.

This touches on a problem familiar to those who teach business students. Some of these students find arguments from evidence quite unfamiliar and may instead provide accounts of current business practice as though these were conclusive. Our approach opposes such uncritical thinking. We believe that those who learn to use evidence as students acquire a technique that will serve them well as practitioners.

One hazard of research-based texts is the sheer weight of evidence. We have tried to emphasize the most recent work and key papers on topics while also acknowledging those early researchers who first identified problems in consumer behaviour – problems that are usually still current. We therefore make no apology for some of the earlier citations in this book, as these help to describe the origin of current thinking.

As subjects become more fragmented, textbooks acquire importance as integrators of different perspectives. In scientific consumer behaviour, we can discern two rather different approaches to research and application. On the one hand, there is the tradition that dominates in the large conferences of the Association for Consumer Research. Put baldly, this endorses theorizing and hypothesis testing, often within experimental designs, and tends to emphasize explanations in terms of the beliefs, the preferences and the culture of consumers – a cognitive orientation. In contrast to this is the approach of those who belong to the Marketing Science grouping, who place an emphasis on behaviour, measures rather than concepts, generalization from an accumulation of findings, and on the use of mathematical models rather than psychological theories for explanation. Textbooks have generally emphasized the cognitive tradition. We give more space than usual to the marketing science orientation; in particular, we emphasize behavioural explanations, the role of habit and the modelling of market patterns and market change. However, we also provide an extensive treatment of the techniques and theory that underlie the cognitive approach to consumer behaviour.

Consumer behaviour is a changing field. New research is providing answers to questions of major importance, and in due course will give rise to a new breed of professional marketer. All four authors have been active researchers and use their own research in this book; we hope that, in doing so, we manage to convey the excitement that new discoveries arouse.

EXERCISES

Good education gives students the confidence to use and criticize ideas. We try to enlarge this confidence through practical exercises that help the reader to apply and reflect on ideas about consumer behaviour. The exercises require self-appraisal, calculation, observation, measurement of attitudes and the use of computer programs. In many cases these can be swiftly completed, and the reader will benefit by doing these as they occur.

PLAN OF THE BOOK

The book is divided into four Parts. Part 1 (Chapter 1) introduces the reader to explanations for the different forms of consumer purchase. Part 2 (Chapters 2, 3, 4, 5 and 6) focuses on patterns of purchase; we cover customer loyalty and brand equity, the recurrent features of mature and changing markets and the relevant differences between cultures and consumer segments. Part 3 (Chapters 7, 8 and 9) looks at decision making; we deal with methods for predicting and explaining decisions, the way that decisions can be biased and the post-decision effects relating to satisfaction and quality. Part 4 (Chapters 10, 11, 12 and 13) considers the responses of consumers to conditions that affect consumption; these are price, the retail environment, social influence and advertising.

Acknowledgements

A number of people assisted us in the production of the previous editions: Dag Bennett, Brian Birkhead, Walter Carl, Cullen Habel, Kathy Hammond, Bruce Hardie, Paul Marsh, Jenni Romaniuk, Deborah Russell, John Scriven, Byron Sharp, Magda Nenycz-Thiel, Cathy Nguyen, Francesca Dall'Olmo Riley, Mark Uncles and Jim Wiley. For this fourth edition, we are particularly indebted to Jenni Romaniuk and Svetlana Bogomolova (University of South Australia), Benedetta Crisafulli (Birkbeck, University of London), La Toya Quamina (University of Westminster), Rahul Chawdhary (Kingston University) and Mike Watkins (Nielsen). Finally, we appreciate the influence of our students very much. With these students in mind, we have tried to be relevant and clear.

Praise for previous editions

'A thought-provoking text that challenges readers to consider consumer behaviour in new and refreshing ways. The approach is distinctive. Readers are encouraged to reflect on their own experiences, as well as appreciate the insights provided by scholarship in psychology, sociology and marketing science. The authors not only discuss complex, one-off decisions, but also help us to understand routine behaviours that occupy so much of daily life – buying brands, patronising stores, watching adverts, making recommendations.'

Professor Mark Uncles, Deputy Dean, Australian School of Business, University of New South Wales, Sydney

'This book provides a wonderful (and very unusual) balance between areas of marketing that are often at odds with each other (or, worse yet, unaware of each other) … I recommend it to any student, researcher or manager in marketing.'

Peter Fader, Frances and Pei-Yuan Chia Professor, and Professor of Marketing, Wharton School, University of Pennsylvania, USA

'I used this book for the consumer behaviour module in my master's degree. It was my favourite subject, and the book provided valuable insights and guidance to successfully complete the course. The book is packed with the concepts relevant for today's marketer and highlights the consequences of commonly used techniques such as loyalty programmes and discounts.'

Inga Meškauskaitė, Head of Customer Success at Appsumer, London

'A serious, thoughtful consumer behaviour text, that focuses on substance rather than what's fashionable in academic circles.'

Professor Byron Sharp, Ehrenberg-Bass Institute, University of South Australia

Part 1
Introduction

1 Ideas and Explanations in Consumer Research

LEARNING OBJECTIVES

When you have completed this chapter, you should be able to:

1. Explain why it is important to study consumer behaviour.
2. Discuss the limitations of a common-sense approach to consumer behaviour.
3. Compare and contrast different approaches to decision making by consumers.
4. Discuss the effects of the consumer environment on choice.
5. Explain how markets are usually classified.

OVERVIEW

In this chapter, we show that findings about the way in which consumers buy and use goods and services can be quite unexpected and that research is needed if we are to answer the questions posed by marketers and regulators. We then describe three ways in which consumer choice can occur. Following this, we introduce some classifications that are commonly used to describe different aspects of marketing and consumer research.

SECTION 1: THE SCOPE OF CONSUMER BEHAVIOUR

How and why do people buy and use goods and services? How do they react to prices, advertising and store interiors? What underlying mechanisms operate to produce these responses? If marketers have answers to such questions, they can make better managerial decisions. If regulators have answers, they can design better policy. It is the role of consumer behaviour research to provide these answers.

In this book, we provide an up-to-date account of the main issues studied by consumer behaviour researchers, our current understanding based on these research findings, and we show how our understanding can be applied to solving marketing problems. Knowledge has grown rapidly in some areas, and we have reflected these advances by describing some work in more depth. In such cases, we explain why an issue is important, how it is investigated and what the findings are. This approach culminates in *empirical generalizations*. These are findings that have stood the test of repeated investigation. Such general findings summarize the state of our knowledge and are useful to practitioners and researchers alike. All too often, popular pronouncements on marketing issues contain little evidence of this sort and it is our purpose to reverse this approach.

Where our knowledge is still sketchy, we have tried to indicate doubts about the evidence or its interpretation. Such uncertainty propels research and as a result creates new knowledge. Though not always welcome to students, doubt is part of good education. Students who see the uncertainties in consumer research should be more sceptical of unsupported opinions and may be better placed to interpret and adapt to new findings when these emerge. Each of the authors is an active researcher and has striven to understand the complexities of consumer behaviour over many decades. We hope that this sharpens the account that we give. Inevitably, we have omitted some fields of knowledge; in particular, we have left out some topics that are well covered in more introductory consumer behaviour texts.

In this chapter, we introduce some general ideas about consumer behaviour and marketing that are explored further in following chapters. In Section 1 of this chapter, we look at the sorts of *question* raised by marketing and the *answers* that are provided by consumer behaviour research. Section 2 will discuss models that provide descriptions of *consumer decision processes* and Section 3 will focus on some of the *classifications* and *explanations* that we use in different types of consumer research.

Questions and Answers

There is a close affinity between marketing and consumer behaviour. In a sense, marketing is a customer of consumer research. Marketers want answers to a number of problems raised by their practices, and consumer researchers can provide these answers. Examples of marketing practices are:

- the use of price incentives
- customer loyalty programmes
- the use of particular colours, music and aromas in the retail environment
- launching new products using existing brand names (brand extension)
- the use of social media.

Often, the direction of an effect fits common sense; for example, consumers buy more when the price is dropped. However, the benefit of a discount depends on the *amount* of extra purchasing generated by, say, a 10% price cut, and here common sense does not supply an answer. For informed action, we need to conduct systematic research, which allows us to measure the size of any effect. Evidence is gathered using the methods of market research, psychology and the social sciences. Using such methods, we seek answers to such questions as:

How much do sales change when the price of a product is cut by 10%? What happens to sales after a discount has ended? Why do these effects occur?

How much do colours, music and aromas affect consumers' behaviour in a store? What mechanisms explain any effects we see?

When a new product is launched under an old brand name, how much does the old name affect purchase of the new product?

Another set of questions comes from legislators and regulators, who have to set the rules that affect marketing. Examples of their questions are:

How do consumers react to product benefits such as increased energy efficiency or high nutritional value? What explains their behaviour?

Do childproof packs save lives? How are such packs used?

Sometimes, marketers give little attention to the explanation for an effect. An example is the identification of specific groups who are very heavy buyers of a product. If such people can be identified, they can be selectively targeted. This type of empirical approach can work well but an explanation still helps. If marketers know *why* some groups buy a product much more than other groups, they may be able to design communications that capitalize on this and also predict other products that these groups will want.

In any applied subject, practitioners need to use their judgement when evidence is lacking. Those who have to take decisions cannot delay action until problems have been fully researched. However, it is important that marketing practitioners do accept new evidence when this becomes available. Some apparently sensible practices may need to be adjusted because of new findings.

For example, it is generally assumed that consumers across Asia are homogeneous and, accordingly, their value perceptions towards the consumption of luxury items should be similar. Marketers usually adopt a standardized strategy for the region. In a multi-country study, Shukla, Singh and Banerjee (2015) show that this assumption is erroneous. How consumers value luxury differs across countries within Asia. Managers of luxury brands, therefore, need to adapt according to regional differences. Importantly, this type of work reminds us about the need for empirical tests.

SECTION 2: CONSUMER DECISION MODELS

The traditional approach to problems in consumer behaviour used to employ a comprehensive model of the purchase decision process. Such models were often the centrepiece of undergraduate consumer behaviour texts and were expressed with boxes and arrows representing all the components and connections of an elaborate rational decision.

In these models, a consumer is supposed to attend to product information and process it into their memory. The consumer retrieves that memory when a need emerges, and after a further search and evaluation of all relevant alternatives a purchase is made. After this, post-purchase evaluation may create satisfaction or dissatisfaction with the chosen product, and this can result in a review of needs for later decisions. Figure 1.1 shows the basic form of such a model.

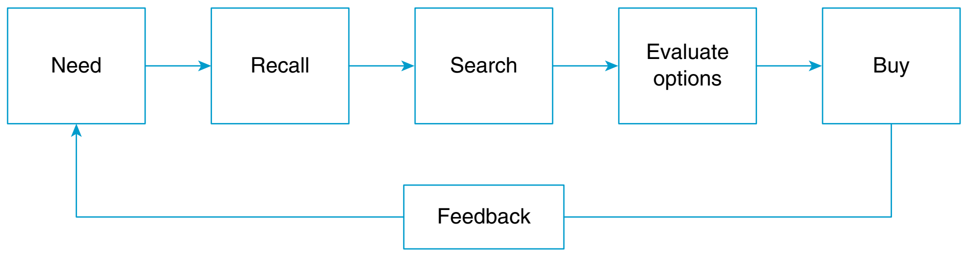

Figure 1.1 Is this how you choose?

These days, there is less enthusiasm for such models. One problem has always been that they are hard to test because it is difficult to find satisfactory measures for all the components (Ehrenberg, 1988). Another problem with comprehensive models is that they overstate the rationality of how consumers choose. If there is plenty of time and the decision is important, then *sometimes* people will discover all the alternatives, evaluate these, and then select the one that seems to be the best, but we know from our own experience that we often simplify the process. Sometimes, we will choose first and justify our behaviour afterwards – if we justify it at all. Thus, although rational decision models might suggest what people *ought to do* (normative), they are a poor guide to what people *actually do* (descriptive). In practice, managers want to know what people actually do since it is behaviour that they are seeking to influence.

Textbooks now give more attention to 'partial decision models' where the rationality of the process is incomplete; also, it is accepted that much repeat purchase occurs automatically as a habit. Often, this range of decision making from rational to automatic is related to the degree of *involvement* with the product. People are likely to be more involved and give more thought to the choice when they are buying something for the first time and this has important outcomes. To explain decision making in more detail, we focus on three models of consumer decision which have different implications for managers (see Box 1.1). The models are:

1. **Cognitive** – treating purchase as the outcome of rational decision-making processes.
2. **Reinforcement** – treating purchase as behaviour which is learned and modified in response to the opportunities, rewards and costs present in the consumer's environment.
3. **Habit** – treating purchase as already learned behaviour, which is elicited by particular stimuli in the consumer's environment.

Box 1.1 Models of consumer choice

The cognitive model – this assumes rationality. The decision rests on beliefs about alternatives, which are investigated and compared. Marketers can influence cognitive decision making by providing information that leads the consumer to prefer or reject alternatives.

The reinforcement model – choice is controlled by factors in the environment that reward and facilitate some alternatives more than others. Marketing influence is achieved by changing the consumer's situation. However, what is rewarding to some persons may not be so to others and this limits influence.

The habit model – choice is controlled by managing stimuli (brand name, logo, pack features etc.) that have become associated with a product because of past purchases. Sometimes this is called *stimulus control*.

The Cognitive Model

When consumers make an important purchase for the first time, they may reflect on alternatives and discuss the pros and cons with others with the intention of securing benefits and avoiding costs. This model, sometimes called *extended problem solving*, has always had its critics. Olshavsky and Granbois (1979: 98–9) noted that

> for many purchases a decision never occurs, not even on the first purchase … even when purchase behaviour is preceded by a choice process, it is likely to be very limited. It typically involves the evaluation of few alternatives, little external search, few evaluative criteria, and simple evaluation process models.

It is quite hard to find behaviour that fits the elaborate sequence of extended problem-solving. Beatty and Smith (1987) found that people did not search much before the purchase of durables and Beales et al. (1981) found that few people in the USA consulted *Consumer Reports*. Carefully thought-out decision making is only likely for first purchases but these are quite rare, even in consumer durable markets, since most purchasers are either buying a replacement for an existing product or making an additional purchase. In a study of white goods purchases in the USA, Wilkie and Dickson (1985) found that two-thirds of the purchasers had bought the category before and Bayus (1991), quoting US industry sources, found that 88% of refrigerators and 78% of washing machines were replacements. In these circumstances, a carefully thought-out comparison of brands is likely to be the exception rather than the rule.

But, when it does occur, is a carefully thought-out decision likely to result in the best choice? When people attempt to be rational about a first-time choice, they may make mistakes because they lack experience. However, they are likely to make a better choice than those who abandon any rational processing and plump for an alternative (see Box 1.2).

Box 1.2 When a pension is converted into an annuity

People build up pension funds over their working lives and may then convert the accumulated investment into an annuity when they retire. They may use their pension company for the annuity or search for better value from another company. According to Hargreaves Lansdown, a large financial services firm in the UK, the majority of people will buy their annuity from their pension company. Since annuity rates across pension companies can vary by as much as 15%, this careless choice can mean that many retirees lose income that they could have enjoyed for the rest of their lives. The most likely explanation for this behaviour is that the retirees have a very poor understanding of the issues and they plump for the company that is familiar.

The tendency to simplify decision making is also observed in industry. One study of investment decisions in British industry revealed that these were often made first and then justified later. Marsh et al. (1988) found that faulty financial analysis and a lack of coherence with stated strategic objectives were common in major acquisitions and that the company rulebooks were often ignored. More generally, industrial decisions often fit a 'satisficing' model (Simon, 1957). Simon describes how executives tend to accept the first option that is good enough to solve a problem; this means that there is little comparison between alternatives. Klein (1989) found that many decisions in operational settings follow a pattern that is consistent with Simon's ideas. Typically, people assess the situation and generate a prospective action based on this assessment. Then, they evaluate this action to see whether it will provide a solution. If it fails, they generate another prospective action and evaluate this, but they do not usually compare prospective actions.

When the satisficing model applies, the order in which products are evaluated is important since the first satisfactory solution will be the one that is adopted. This means that more prominent alternatives have a better chance of selection (see Box 1.3). Managers and marketers may be able to use this fact to their advantage by keeping awareness of their brands high in consumers' minds.

Box 1.3 Diagnosis

Even in medicine, decisions may be simplified. Often, the symptoms are assessed and a preliminary diagnosis is made, taking account of common illnesses; then other symptoms are checked to see whether they confirm this diagnosis. Only if these other symptoms fail to support the first diagnosis is a second one considered. This procedure may lead to the over-diagnosis of common illnesses.

These examples of decision making in industry and medicine suggest that the simplification of choice is the norm rather than the exception, and we might expect consumers to follow much the same pattern. For example, if the freezer needs replacing and a preliminary inquiry establishes that there is an appropriate model in a convenient shop, consumers may complete the purchase there and then. If the shop does not offer a suitable freezer, they may then turn to other stores and look at other models. On the Internet, the comparison between alternatives is made easier but consumers may still cut the process short by making a satisficing choice.

Although satisficing may not result in the optimal solution, it may use time efficiently when this is scarce. However, when the outcome of the decision is important, consumers and managers would make better decisions if they forced themselves to consider a second alternative before deciding.

Influences on Decision Making

It is easy to fall into the trap of assuming that decisions are made by people acting on their own. Many choices are made in groups and, even when people decide on their own, they are often influenced by word of mouth received previously from other people. At other times, people may base their decisions on information received through the mass media (e.g. advertising, newspaper, TV and Internet reviews). People are particularly likely to seek advice on matters that are obscure or difficult to test in other ways; this is common when the recipient of the advice is choosing for the first time or acting under changed circumstances, such as when they move home and need to find service providers such as a dentist. In later chapters on word of mouth and advertising, we consider in more detail how these influences may affect choice.

Since advice affects consumer decisions, marketers need to take account of this process. For example, advertising can include information that is easily passed on in conversation, and the design of the ad can reflect the process of giving advice. However, word of mouth is under consumer control, not marketing control, so normally marketers can only affect it indirectly.

Exercise 1.1 Decision making

Identify an important purchase that you have made, for example a holiday, electronic device, financial investment or education course:

- Were you clear about what you wanted?
- How much investigation did you do before purchase?
- Did you consider one option and move on to others if it was unsuitable, or did you keep several alternatives in mind before choosing?
- Did you use the Internet to search for others' opinions?
- Did you consult friends or relatives?

In retrospect, you may be able to see defects in your decision-making process. Often, we will lack enough prior experience, time or motivation to fully compare the options.

Purchase as Learned Behaviour

A person's environment controls behaviour in two ways. First, the environment makes some actions possible and other actions impossible to perform; for example, some physical items can only be bought if they are stocked by retailers. Second, when actions lead to positive outcomes, they are more likely to be repeated, and conversely negative outcomes make it less likely that the action will be repeated. These reinforcement effects on behaviour have been examined in *learning theory*; this is a systematic description of the relationship between initial behaviour, its outcomes and subsequent behaviour. Learning theory is relevant to both the reinforcement and habit models.

The Reinforcement Model

Early research in learning theory was done by Thorndike (1911), who confined a hungry cat to a cage and placed food outside. The erratic movements of the cat eventually released a simple catch and the cat escaped. The cat took less time on subsequent trials and eventually it released the catch immediately when it was placed in the cage. Thorndike called this *trial-and-error learning* and it has some relevance to consumption. People entering new markets are faced with a range of brands and may make near random trials of alternatives until they come upon a brand that they like.

In Thorndike's work, the cat's actions were driven by the outcomes: gaining food and freedom. Skinner (1938, 1953) called such outcomes *reinforcers*. He defined a reinforcer as an experience that raises the frequency of responses associated with it, while a punisher reduces the frequency of such responses. Reinforcers may be rewards or reductions in cost, while punishers may be costs or reductions in reward. Reinforcement has most effect when it occurs at the same time as, or just after, the response. Skinner placed an emphasis on the way in which reinforcement changes the frequency of the response, but reinforcement also strengthens the association between stimulus and response and this is important for the habit model. Figure 1.2 illustrates the effect of reinforcement.

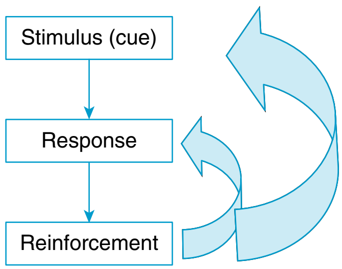

Figure 1.2 Reinforcement learning

The principles of reinforcement are applied in many sales promotions, such as discounts that offset the cost of a product. Skinner also introduced the idea of *shaping*, the process whereby behaviour is gradually shifted from one form to another by selectively reinforcing those performances that show change in the desired direction. Shaping is sometimes apparent in sales techniques where the salesperson moves the prospect towards the sales goal by reinforcing shifts in the preferred direction with nods, agreement and approval. Products also shape us. We become more expert at using computers and cars, partly because of the reinforcers that such products deliver; as a result of this, we may seek more sophisticated models.

Learning can be reinforced each time a response is produced, that is *continuously*, or it can be reinforced *intermittently*. Learning is faster if the reinforcement schedule is continuous but the final effect of a given amount of reinforcement is greater when it is used intermittently. This helps to explain why people are prepared to lose money by gambling on fruit machines. The cost of playing a slot machine is a fairly continuous punishment but the machine rewards intermittently. Over time, the gains are fewer than the losses, but the effect on behaviour of the irregular reward is greater than the effect of the regular cost.

Both stimuli and reinforcers can lose their effect if they are used too frequently. Stimulus satiation, called *desensitization*, helps people to put up with recurring unpleasant experiences. An important effect of desensitization in consumer behaviour is the way in which people get used to conditions that are inadequate or unpleasant, and as a result may not complain or demand compensation. Examples of this are the way people tolerate litter in streets, overcrowding on public transport, and being kept waiting 'on hold' on the phone. Similarly, consumers may put up with defective goods because they have grown used to the defects. Examples are the continuing use of lumpy mattresses, broken refrigerator shelves and inadequate carving knives. The job of the marketer is to overcome the inertia in these situations so that the consumer sees the problem afresh and seeks a solution.

Stimulus Control: Classical Conditioning

One type of learning, called *classical conditioning*, was studied by Pavlov (1927). Pavlov noticed that dogs started to salivate at the sight of the person who fed them. The older dogs showed this most, and Pavlov thought that, over time, the salivation reflex that normally occurred at the presentation of food had become associated with a new stimulus – the dogs' handler. Pavlov set up a series of experiments to demonstrate this process of classical conditioning using the sound of a buzzer as the conditioned stimulus instead of the dogs' handler. Figure 1.3 illustrates this process.

Classical conditioning has considerable relevance to consumer behaviour. Packaging, brand names, colours, smells, music and the contexts of purchase and consumption may become associated with the buying of particular products. Some advertising is clearly intended to forge associations between brands and particular stimuli that can be used in further advertising and at the point of sale; for example, McDonald's and the big 'M' sign, 'i' and phone, pod, pad … and, more generally, all logos and their respective brands and companies. The idea here is that the conditioned stimulus may help in identification and add to purchasing tendency. It is also noticeable that, to compete in some markets, manufacturers have to adopt the colours and pack shape that are conventional for that type of product. The power of such associations is revealed by a trip to an unfamiliar country. The absence of familiar features makes the high street confusing. A simple task, like posting a letter, requires investigation and effort in order to identify the colour, shape and location of the postbox.

Starting with

Food (unconditioned stimulus) → Salivation (response)

A new stimulus is associated

Food + buzzer → Salivation (response)

Producing learning

Buzzer (conditioned stimulus) → Salivation (response)

Figure 1.3 Classical conditioning: Pavlov's experiment

A stimulus that is associated with a rewarding product may induce a more generalized tendency to buy other products that appear similar. A direct application of such generalization in marketing is the use of an existing brand name for a new product. By this process of *brand extension*, some of the buying tendency (often termed *propensity* by marketers) that consumers have for the old brand may attach to the new brand. For example, Mars used the positive consumer propensity towards the brand when introducing Mars ice-cream, and this was helped by the similarity in the appearance of the packs for the ice-cream and the confectionery bar.

Habits of Purchase

The cognitive and reinforcement models emphasize the *modification* of consumer behaviour and thus may explain the *changes* that occur in our purchasing. However, much consumption has a settled form: people buy the same brands and use the same stores over long periods. This repetitive purchase is of great value to firms.

We say that people have a habit when they regularly produce much the same behaviour on encountering a particular stimulus. In the case of supermarket goods, important stimuli are the colour, size and shape of the pack. Williams (1966) found that colour positively affected buying behaviour most, followed by size and then shape. Response to such stimuli is automatic, so that no conscious thought is required when we pick a laundry detergent brand in the supermarket. Habits sidestep cognitive decision making and leave us free to concentrate on other problems where experience does not provide us with a ready response. However, even in novel situations people may trade on already acquired habits. Consider the person who is about to buy a car for the first time. Most first-time car purchasers are familiar with cars, have been to car showrooms before, may have bargained for goods before, may be knowledgeable about the ways of salespersons, and may understand credit arrangements. Therefore, even first-time car purchasing may draw on previous learning, some of which may have become habitual. Viewed in this way, even complex and novel behaviour may call upon behaviours in a habit repertoire.

Box 1.4 COVID-19 and buying behaviour

Have prolonged lockdowns and restrictions on shopping changed consumers' buying habits during the COVID-19 pandemic? The answer to this question lies in evidence concerning shifts, if any, in how people are buying their brands. Brand buying gets entrenched over time, and non-availability of brands in some categories during the earlier phases of the lockdown could have disturbed the well-established buying habits, encouraging brand switching. Once the supplies were restored, people mostly went back to their repertoire of brands. The trialling of the 'new' brands could have led to short-term repertoire expansion. Crisis-induced uplift in some categories such as air fresheners, paper towels, health and hygiene products have also been reported but these might disappear in the long-term post-pandemic scenario. Post-crisis, there could be a slight increase in online trade as consumers become more habituated to buying online. Overall, the online trade is likely to fall back after lockdown measures are removed and firms like Ocado that have expanded facilities may find that these are not needed for a while.

The habit model of consumption excludes planning before action but does not imply that consumers never think about their habitual behaviour. People may reflect on their actions *after* purchase either because of discussions with others or because their purchase outcomes were exceptionally good or bad. But this is unusual; generally, habit restricts experimentation and, as a result, consumers may be unaware of improvements in products from which they could benefit. This suggests that, although habitual purchase is frequently satisfactory, it is not always the best solution. Exercise 1.2 draws your attention to habits you may have which may not best meet your needs.

Exercise 1.2 Habits

It is hard to detect habits that work against your own interests, but consider these two areas:

1. Taking sugar in tea and coffee is a habit that adds to body weight and contributes to tooth decay. When people give up sugar, they get used to it fairly soon, and after a few weeks may prefer unsweetened tea or coffee. Is this not a habit worth changing?
2. If you make a regular journey to work, is the route optimal? People can discover journey improvements after years of using a less suitable route that has become habitual.

How should marketers present new brands in markets where purchase is strongly habitual?

When purchase is habitual, a new brand must be marketed in a way that disrupts habit and provokes a review of past purchase. This is not easily achieved. Advertising may be ignored, while discounts and free samples may be used by consumers without much effect on later purchase. Most of the time, consumers will carry on buying what they have bought before. But that's why marketers need to understand which types of marketing interventions work best for different customer groups in different environments.

Exercise 1.3 Buying habits in COVID-19

Due to the lockdown enforcement, buying online became popular. Think of your own buying habits and consider whether they changed.

1. Did you buy brands that you did not buy in the past? In which product categories?
2. Did you continue buying those brands?

How Free are Consumers?

It is often claimed that the consumer is king but this may exaggerate the flexibility of action that consumers have. To be free you should be able to choose from more than one option without pressure, and be able to reject all options if they are unattractive. Many choices are controlled by the consumer's environment rather than by reflective thought by the consumer, and this casts doubt on how much freedom of action consumers can exercise.

The constraints on consumers are considerable and are not just environmental. Consumers may *lack knowledge* of alternatives when these are not displayed. Sometimes, people *have to use* products; they must put petrol in a car and laundry detergent in a washing machine, and the fact that they have a choice between near identical brands is often, to them, a matter of indifference. Freedom of action is also affected by *limited access* to goods and services, by *physical dependence* on products like cigarettes and alcohol, and by *psychological dependence* when the consumer is a compulsive purchaser or gambler.

People also do many things that they would prefer to avoid, such as going to work on congested public transport and waiting for flights in airports. In many areas, such as education, medicine and legal advice, the opportunity to influence a service by withdrawing custom or complaining is effectively limited by the continuing need to use the service. There are other areas where a lack of money prevents people from doing the things they might wish to do; large houses and luxurious cars are possible for only a few. For these reasons, we are sceptical of claims about the almost unlimited choice available to consumers and how much autonomy they have. However, the growth of the Internet has raised access to knowledge about goods and services and assisted purchase; this may lead to a genuine increase in consumer choice.

Decision making on the Internet

Increased use of the Internet and the facilities that websites offer may change the rationality of choice. The ability to compare prices online generally drives down the average price of goods and services bought online. The percentage of daily Internet users was 87% in 2019, up from 64% in 2011 (ONS, 2020). Shoppers seem to be making more online purchases. According to the Office for National Statistics (UK), online sales as percentage of total retail sales has shown steady growth, with a very large uplift during the COVID-19 pandemic year of 2020 (see Figure 1.4). In the UK, 87% of all adults reported buying goods or services online during 2020 (Statista, 2020). This had risen from 76% in 2015, with clothes, shoes and accessories the most popular online purchase, bought by 55% of all adults (Statista, 2020).

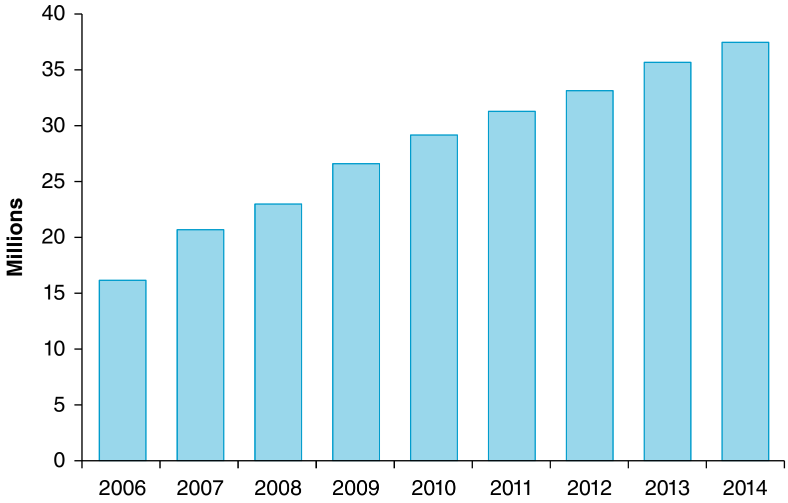

Figure 1.4 Changes in online sales in the UK (Office for National Statistics, UK, Statistical Bulletin 2021: https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi)

The Internet makes it easier to compare prices and specifications, and can take some of the effort out of shopping. Search engines such as Google assist in the identification of sources and products, while chatrooms and blogs often provide user comment on different brands. Comparison sites such as Shopping.com show the prices charged by different suppliers. Other sites, such as Uswitch.co.uk, can compute the best value among service providers and may facilitate transfer to a new provider. Websites for those buying houses, shares, books and many other items aid choice by providing easy comparison between alternatives. For example, an Australasian buyer can use a site such as realestate.com.au to specify properties by location, price and type, and can then inspect pictures of interiors. This helps to focus attention only on those properties that meet the needs of the buyer. A subscriber buying shares through a Web-based stockbroker such as Hargreaves Lansdown (www.hl.co.uk) can see the past return on specific shares over different periods and can compare this performance with other shares and with standard indexes. On Amazon.co.uk, customers can read reviews of a book before buying and be provided with information on new books that are related to their previous purchases. On airline sites such as britishairways.com, a traveller can pick travel dates that are cheaper. Quite clearly, the Internet is increasingly used by consumers to better assess alternatives, but how much do consumers improve their range of choice and lower their costs?

A study by Zettelmeyer, Morton and Silva-Risso (2006) suggests that Internet customers may bring down the price that they pay for cars by an average of 1.5%. However, consumers who use the Internet may be more price-sensitive and these people might also drive a hard bargain in an offline context. In addition, it appears that even Internet customers rarely secure the lowest price. According to Shopping.com, 80% of Internet customers pay more than they have to. It seems that use of the Internet to obtain better value is restrained by loyalty to particular websites. Once they are familiar with a site, consumers may return to it later because it is easy to use and saves time. A consumer may agree that a book might be cheaper elsewhere but still use Amazon because of convenience – and this convenience can be considerable; customers may allow trusted sites to store their credit card and delivery details so that purchasing really is simplified. Similarly, buyers normally use one online grocer because of the trouble of getting to know another site. In short, habits take over.

This evidence presents a somewhat confused picture. The Internet *can* assist people to make better decisions and buy more cheaply, but the technology may discourage experimentation when goods are regularly bought. In addition, there are some sectors, such as grocery, where choice limitations and delivery cost may raise the price that is paid online.

SECTION 3: CLASSIFICATIONS AND EXPLANATIONS

Disciplines must organize and classify information in order to explain it. Marketing is no exception and uses a number of classifications, some of which are shared with other subjects. We start with one distinction that is so ubiquitous that we scarcely notice it. This is the use of comparison in the assessment of evidence.

The Principle of Comparison

Any judgement rests on implicit or explicit comparison. When we say 'that's cheap', we are comparing the price that is presented with some standard. That standard might be given by another brand that is physically present, or it might be an internal standard that we have built up from experience. Such comparisons are fundamental to human judgements. We make sense of any raw data by comparing these with objective standards, or with personal or social norms. Comparison also occurs in the scientific assessment of findings. To illustrate this, consider Table 1.1.

This table shows the ratings that owners gave to their car compared with the best alternative that they could have purchased instead. The data come from an online survey of

495 owners conducted in the UK. The numbers show that 64% of respondents thought that their car was better than the best alternative and 9% thought that it was worse. Given the choice of car models available, the assessments shown in Table 1.1 are difficult to justify. When there are many alternatives, which are difficult to fully compare, it is quite likely that another brand would have been better than the one chosen. Therefore, there seems to be an optimism bias in the assessment of possessions which is revealed by making the question comparative. In Chapter 8, we study these judgemental effects in more detail.

Sometimes, the standard of comparison that people use for judgements has an objective basis; for example, the average price of a basket of goods in the different supermarket chains or the fuel economy of different cars. But notice that consumers have to discover and accept such standards if these are to affect their judgements. Standards may be affected by marketing communications, but mostly people appear to acquire price or quality norms from experience. Such internal norms will be based on observations, discussions with other consumers and information from the media, and are likely to be quite stable. In these circumstances, what changes when marketers are successful in modifying consumer behaviour? Usually, marketing activity alters the immediate perception rather than the internal norm. When the price is cut and more people buy, it is because the new price is seen as cheap compared with the norm.

Table 1.1 How owners rated their current car

Rating in comparison to the best alternative make that could have been purchased instead	*Current car (%)*
Much worse	1
Worse	8
The same	27
Better	38
Much better	26

Categories, Brands, Variants and SKUs

Classifications are also made on the basis of the context in which decisions are taken. We call anything a customer buys, whether a good or service, a *product*. Then all products are divided into *categories* such as soup, wine, mobile phone airtime supply, cars and hotels. Within a category, there will be a number of brands available for consumers to choose from. Brands are easily recognizable entities – such as Apple, Toyota and Disney – and customers can become attached to one brand rather than another when making repeated choices. Sometimes there are sub-brands, for example Volkswagen has Polo, Golf and Scirocco. The branding is signalled primarily by name, but also by logo, and the shape, colour and design of the pack or product when this has a physical form. Advertising may attach other associations to the brand, such as cartoon animals and musical themes. In many cases, a company name is synonymous with the brand, such as BP, but in other cases, the company owns a variety of brand names; for instance, General Motors, Procter & Gamble and Unilever each manage many brand names (e.g. Unilever owns Ben & Jerry's, Bertolli, PG Tips, Dove, Lynx and Timotei among other brands). Variants are subdivisions of the product type, so the Volkswagen Passat is available as a saloon or an estate, and Heinz soups are available in different flavours and pack sizes.

In business, the term SKU (stock keeping unit) is used widely. This is a unique combination of brand, variety, pack size and so on that is required for manufacturing and ordering. The SKU is barcoded so that automated systems can specify it in production scheduling and stock control. Manufacturers and retailers often analyse consumer choice at the level of the SKU. Research by Singh, Ehrenberg and Goodhardt (2004) shows that buyers switch between SKUs in much the same way that they switch between brands. In both cases, switching is related to the market share.

The consumer's purchasing of specific brands from specific outlets at specific prices controls the profit that is made by the brand owner, retailer and other suppliers; marketing activities are therefore coordinated to promote brand and outlet preferences. This means that the branding must be distinctive enough for consumers to distinguish one brand from another, but at the same time the brands in a category often have features in common, such as pack size, colour and shape, which help the consumer to recognize what they are buying when they search for the product on a shop shelf or on a website. In fact, one brand does not have to be physically different from other brands in a category. At one time, Volkswagen, Seat and Ford offered SUVs that were almost the same except for the name badge and price. Similarly, there may be no detectable difference between the granulated sugar offered by two different manufacturers; consumers know this, but this does not stop them from regularly buying one brand over another. Often, each brand will cover much the same range of variants. Sugar brands will offer granulated, castor, icing and Demerara variants; soup brands will have much the same range of flavours; and car brands will be available in SUV, sports, saloon and estate forms. In fact, the differences between the variants of a single brand are often much greater than the differences between the corresponding variants of different brands.

Singh, Ehrenberg and Goodhardt (2008) show that product variants (i.e. SKUs) can attract markedly different levels of loyalty. These different loyalty levels are found to be closely related to the variants' market shares – higher loyalty predictably goes with greater sales. Some variants were found to be very popular, and some were bought by only a small fraction of the market. However, neither large nor small variants seem generally to attract a special or unusually loyal customer base. Although product variants have their own specific functional differentiation, this is seldom the focus of advertising and promotion (except perhaps at launch). Instead, they are expected to 'sell themselves', by their labelling, shelf space and familiarity. A problem here is that, when the variants of different manufacturers are very similar, advertising the variant may assist the sales of other manufacturers as well. Choosing between product attributes and the variants offered remains complex (e.g. Sharp and Dawes, 2001) and is subject to substantial market research using focus groups, trade-off analysis and modelling.

In many categories, brands compete only with each other for the customer's attention, such as Colgate versus Aquafresh toothpaste. However, in the food and entertainment fields this is less true. A frozen meal brand competes with home cooking and restaurant meals, as well as with other brands of frozen meals. Similarly, beer competes with wine and ten-pin bowling competes with the cinema.

Other differentiators beside brands are used to distinguish one market offering from another. An interesting example is provided by wine. French wine has traditionally been branded by the producer, sub-region and region; for instance, Château Cheval Blanc is a St-Émilion production in the Bordeaux region. There are many other producers, and this produces a complex choice for the consumer. By contrast, Australasian wine is sold more on the basis of grape variety. Although there are many varieties of grape, a small number dominate the field (e.g. Cabernet, Chardonnay, Malbec, Merlot, Pinot Noir, Reisling, Sauvignon, Shiraz and Tempranillo) and several of these varieties are grown in each region. Grape variety creates major differences between wines and provides an easy 'handle' for the consumer. When the grape variety has been chosen, regions like the Barossa, producers like Penfolds and the year of the vintage may be used in the choice process of the more discriminating buyer.

Goods and Services

A familiar grouping of categories is into goods and services. A good has a physical form, such as a can of soup or a bed, or in business-to-business (B2B) markets, aluminium sheets or bus wheels, whereas a service is intangible and is used by the recipient as it is created, such as a haircut, a visit to the dentist, professional advice or a phone call. So the essence of a service is that it exists in time and must be consumed at that time if a loss of sale is to be avoided. By contrast, goods such as frozen peas can be stockpiled by the retailer and supplied when there is demand. Most service products incorporate a goods component; for instance, the meal is consumed in a restaurant and your phone call is made from an electronic device such as a phone handset or a computer.

Goods can be subdivided into classes such as groceries, electronics and fashion, or in B2B markets, electronic components, food commodities and so on. Similarly, services divide into classes such as telephony, transport, surgery, entertainment and financial services. The fact that there are textbooks devoted to the marketing of services suggests that this is substantially different from the marketing of goods. One difference is that, because they are delivered over time, services can suffer problems of uneven demand, leading to an inefficient use of resources and delay and frustration among customers. We cover research on the consumer response to delay in Chapter 9. There are also differences that arise from the interaction between service supplier and customer; this cannot easily be standardized because customers differ and attempts at uniform treatment may cause dissatisfaction. Most goods can be examined before purchase, and this helps consumers to find what will be satisfactory. Services cannot usually be examined in this way, and as a result those who are thinking of adopting a new service provider may seek advice from existing customers, whose word of mouth provides a proxy for personal experience. In other respects, goods and services are similar. Our three models of consumer decision making apply to both, and so does the distinction between repertoire and subscription categories that we discuss below.

Vargo and Lusch (2004) have suggested that services rather than goods are the fundamental product form since goods are made by the service of workers. This new 'dominant logic' in marketing has echoes in the work of early economists, particularly in Marx's theory of value, first expounded in *Capital* (volume 1 was published in 1867), which relates value to the labour input. However, these days economists argue that the value of goods is defined by an exchange process; it is what others are prepared to give for the goods and no amount of labour input will raise the price of something that people do not want. The character of transactions may have changed and become more cooperative, but in our view it is the willingness to engage in exchange that is the basis of value. Marketers must be concerned with profitable trading, and for this reason we are sceptical about making service fundamental in marketing.

Service failures are a common concern, and service providers struggle to understand the psychology behind customer perceptions of a fair response by the supplier after failure (see Singh and Crisafulli, 2015 for a review of service recovery after failure). This topic is considered in more detail in Chapter 10.

Repertoire and Subscription Markets

Categories can be divided into those that are repertoire, where consumers commonly purchase more than one brand over a fairly short time such as a year (e.g. groceries, restaurants and airline tickets), and subscription, where consumers mostly use only one brand at a time (e.g. bank accounts, dentists and refrigerators). Research by Sharp, Wright and Goodhardt (2002) shows that most categories fall clearly into either the repertoire or the subscription division. In repertoire markets, we can measure a type of behavioural brand loyalty called *share-of-category requirement* (SCR). This is the percentage of category purchases that a customer gives to a specific brand over a period. For example, if a person buys instant coffee on ten occasions in a year and five purchases are Nescafé, the customer's SCR for Nescafé is 50%. By contrast, loyalty in subscription markets is shown at the time of repurchase when the customer either retains the brand or switches to another.

Market Concentration

In many categories, there are relatively few brands. Laundry detergents, toothpaste and mobile phone airtime supply are examples. In other fields, such as wine, cheese and biscuits, there are a great many producers, none of which commands a large market share. In some other fields, such as supermarkets, fashion stores, chemists and investment advisers, a few large chains compete with many smaller suppliers in western markets. When a few producers command a large part of the category, we describe the market as *high concentration*. Usually, large suppliers are more profitable because of economies of scale in manufacture, distribution and advertising. Retailers feel compelled to stock more familiar brands because of demand, and this helps the manufacturer (the brand owner) to maintain the price paid by the retailer.

Consumers are not necessarily disadvantaged by high market concentration. The large scale and efficiencies of big producers mean that product development can occur and the wide distribution of big brands ensures that consumers can easily find the larger brand. One concern is that high concentration may reduce competition, but it is not difficult to find high levels of competition in concentrated markets. For instance, the worldwide cola market is highly concentrated, yet both Pepsi and Coca-Cola remain fiercely competitive suppliers.

Market Share

A brand's market share is a robust indicator of its customer loyalty. Ehrenberg (1988) explains that many aspects of aggregate buyer behaviour can be seen as an outcome of market share. For example, the average SCR loyalty for a big brand tends to be higher than that for a small brand (i.e. the evidence is that, in general, the bigger the brand the more likely it is that customers will buy it again compared with the customers for smaller brands). In Table 1.2, we illustrate how another variable, the share of recommendation, relates to market share in the mobile phone category, using data gathered before the advent of smartphones.

Table 1.2 shows that the share of brand recommendations closely follows the market share of the brand. There is no mystery about this. As we saw earlier with regard to cars, people are usually happy with the products that they own, and East, Romaniuk and Lomax (2011) found an average of 71% of recommendations related to the informant's main brand. So, the bigger the brand, and therefore the greater the number of users, the larger will be the share of recommendations. For this reason, managers need to take account of market share before they assess the word of mouth about their brand. In Table 1.2, Motorola is doing well because the rate of recommendation is ahead of market share. If the rate of recommendation was assessed without taking account of market share, Nokia would come top, but we can see that its performance is just average for its size.

Table 1.2 Market share and share of recommendations of mobile phone brands (unpublished UK data gathered in 2005)

Brand	*Market share (%)*	*Share of recommendations (%)*
Nokia	40	40
Sony-Ericsson	25	21
Motorola	14	20
Samsung	10	11
Siemens	4	2
Others	7	4

Exercise 1.4 Do big brands get more, or less, negative word of mouth?

Recommendation is positive word of mouth. What about negative word of mouth? Develop ideas about how negative word of mouth is produced. What will be the resulting relationship between market share and the share of negative word of mouth?

When you get to Chapter 12, you will see our evidence on this topic.

Consumer Segmentation and Causal Relationships

We often compare population segments: those who retain a brand versus those who switch, heavy TV viewers versus light viewers, high recommenders versus low recommenders, men versus women and so on. If we have evidence about the consumption habits of different segments, we can target those that appear to be most likely to purchase the category or most open to switch brands. Consumer segmentation is an approach that is very popular in marketing; it can work well even when we do not know why the behaviour of one segment differs from that of another. For example, a method used by those trying to harness word of mouth is to try to identify those consumers who give more advice than others (the *influentials*). Once they have been identified, the job of the marketer is to recruit them on behalf of a promoted brand.

However, in consumer behaviour, we want to explain behaviour, preferably by finding causes for it. Why is it that one segment is more active in giving advice to others than another segment? We can investigate how segments differ with respect to possible causes. As the picture of the different factors underlying recommendation builds up, a new strategy becomes available to marketers. Instead of identifying a segment that gives more word of mouth, marketers can try to influence the factors that cause word of mouth, and this can be done *without* identifying the influentials.

Behaviourism and Cognitivism

Does a change in thinking cause a change in behaviour, or does a change in behaviour cause a change in thinking? The answer is that we can find support for both processes. In psychology, the primacy of behaviour is called *behaviourism*. This approach was developed by Skinner (1953). The traditional behaviourist rejects the idea that thought and feelings are the initiators of action. Instead, action is explained by reference to the environmental circumstances that act on a person. This fits the reinforcement and habit models of consumer decision making.

In traditional behaviourist research, it used to be believed that thought and feeling are *effects but not causes*; like ripples on the surface of a pond, they indicate the fish's movements but do not move the fish. If this account is correct, we can use people's thoughts and feelings as indicators of their potential behaviour but not as explanations for it. Such narrow behaviourism is usually rejected today. One reason is that it is difficult to describe action without taking account of the thoughts and feelings that lie behind it; words become insults or praise only through an understanding of the motives of the person uttering them. The traditional behaviourist position is not subtle enough to deal with the complexity of human behaviour.

Opposed to behaviourism is the view that thought and feeling can produce change in action directly. This is *cognitivism* and it lies behind rational accounts of consumer decision making. In its strongest form, experience is interpreted and used to change attitudes and knowledge, which then control behaviour. Therefore, from a cognitivist perspective, behaviour may be modified by communications that change attitudes and knowledge.

Some support for the cognitivist position can be found in the way public information campaigns change behaviour (e.g. anti-smoking advertising, featuring the hazards of smoking, has been shown to be effective; see Chapter 13).

There are also examples where behaviour precedes attitudes, supporting behaviourism. Clare and Kiser (1951) asked parents of completed families about the number and sex of the children that they thought were desirable. There was a strong tendency for parents to prefer both the size and the sex mix of the family that they already had; for example, if they had two girls, they stated that they felt two girls were what they would like if they were to have their family again. At the time of the study, there were no ways of controlling the sex of offspring, so a preference for the same sex balance can only be explained as a product of experience.

In many other cases, the causal direction between attitude and behaviour may be in doubt. The preferred number of children is a case in point. Parents might have had two children because they wanted two; or, having had two children, they might have come to prefer this number. Such alternative explanations can often be seen in the social sciences. For example, Marx argued that it was not ideology that determined social relations but social relations that determined ideology. This is the sociological equivalent of the primacy of behaviour over attitude and it is contrasted with Hegelian philosophy favouring the primacy of ideas. Sometimes Hegel's account fits; paradoxically, Marxism itself was a revolutionary ideology that created change.

In consumer research, there is substantial evidence for the effect of prior behaviour. Bird and Ehrenberg (1966) found that two-thirds of those who have used a brand at some time express an intention to buy it. A declining brand has a long tail of past users, and as a result a larger number of consumers state that they are going to buy it again, compared with a growing brand with the same share. There is also evidence that brand attitudes follow the purchase of groceries. Dall'Olmo Riley et al. (1997) found that brand attributions (e.g. that 'Persil washes whiter') may depend on recent purchase.

Box 1.5 Marketing practices during COVID-19

Evidence on the impact of marketing during an economic crisis suggests that the brands that continue investing in advertising and marketing activities reap a reward, post crisis. The COVID-19 crisis has had a deep impact on many sectors in the economy and led to a fall in adspend, except in a few sectors such as fast-moving consumer goods (FMCG), online streaming and gaming. In these circumstances, the brands that continue advertising tend to benefit from reduced competitive noise and lower media costs. Staying indoors has led to more time spent watching TV, or on the Internet, which gives brands more opportunities to increase visibility. Thus, brands that can afford to keep advertising should do so.

(Continued)

Other marketing responses to COVID-19 include reassessing pack sizes, reduced discounting and making the online business more user friendly. Some big ad spenders have had to reassess their ad expenditure because of falling demand; for example, Coca-Cola paused advertising during mid-2020 which was the peak period of the pandemic in many western countries. Food delivery companies such as Domino's have prospered; this firm continued with adspend, invested in contactless delivery and implemented social distancing protocols.

There are also calls for the brands to champion socially responsive products. LVMH and other brands took to manufacturing hand sanitisers, Burberry produced medical protection kits, UK retailers such as Tesco and Asda created priority-based delivery systems for the vulnerable population. These actions are certainly appreciated by consumers and may bring some long-term reputational benefit.

SUMMARY

Key questions for consumer behaviour come from marketing strategy and consumer policy. In order to answer these questions, we need to understand how consumers make decisions. When people face difficult and involving choices, the cognitive model of choice may describe the process of decision making, but the process is often simplified, even when the decision is difficult. When action is steered by the environment, the reinforcement model provides an explanation of how purchasing is learned: consumer action is constrained by the opportunities available and directed by the rewards and costs that are present. Once actions such as brand purchase have been acquired, they may be induced by specific stimuli, such as the brand name, and the habit model can apply. To change the behaviour of consumers, the influencing agent (e.g. advertising, promotions, word of mouth) must either alter the beliefs and values involved in a complex decision, or where the context controls behaviour, modify the consumer's environment. Learning principles help us to explain some marketing practices, such as brand extension.

The growth of the Internet suggests that people are now able to make better choices (more suitable brands, lower prices), but it is not yet clear how much this occurs.

In this chapter, we also introduced some of the ways in which data are organized to create meaning: the use of comparison, types of category, brands and variants, goods and services and market share.

Additional Resources

For an early challenge to comprehensive models of consumer behaviour, read Olshavsky and Granbois (1979).

Students would be wise to read ahead so that the material is more familiar when they encounter it in lectures.

Part 2
Consumption Patterns

2 Customer Loyalty

LEARNING OBJECTIVES

When you have completed this chapter, you should be able to:

1. Report the different terms and measures that have been used to describe customer loyalty.
2. Explain how different ideas about loyalty developed.
3. Explain how customer loyalty is divided between brands in repertoire categories.
4. Describe other habitual features of consumer purchase.
5. Discuss and criticize the main ideas in favour of encouraging retention in consumer markets.
6. Show how design features of loyalty programmes trigger differences in consumer behaviour.
7. Report research on the associations between different forms of loyalty.
8. Report on the reasons for defection in services.

OVERVIEW

There are three types of loyalty behaviour that consumers can show. First, when they buy several brands in a category, consumers can give a high share to one of them. Second, they can continue to buy a brand for a long time; this is retention. Third, they can give positive advice about a brand and, by this action, recruit new customers. These three forms of customer loyalty – share, retention and recommendation – can ensure a continuing revenue stream to the brand owner and reduce the need for the parent company to promote the brand. Marketers therefore want to find and keep customers who exhibit these forms of loyalty and, where possible, they want to encourage this behaviour. Marketers are also keen to understand why customers switch away from a brand.

A second aspect to loyalty is the feeling that customers have about brands. We talk of being satisfied by a brand, liking a brand, being committed to the brand and, in the case of business and service suppliers, trusting and being dependent upon them.

(Continued)

This subject is quite complicated. We have a common term, *loyalty*, but it has different forms and one form of loyalty may have a strong or weak relationship with another. Also, the measure of loyalty that we use depends on the category. We use repeat purchase to show retention in consumer durables and duration as a customer to show retention for utilities and other services. In some fields, where consumers have a portfolio of brands they regularly buy, we can use both share and retention to show the loyalty of customers (e.g. to grocery brands, stores and airlines). To explore these issues, we approach the subject historically, show how different measures of loyalty originated, and examine some of the evidence associated with each form of loyalty.

SECTION 1: BRAND LOYALTY IN REPERTOIRE CATEGORIES

The Development of Panel Research

Research on brand loyalty, as a share of purchase, began with a paper by Copeland (1923) in the first issue of the *Harvard Business Review*. Copeland discussed a phenomenon he called 'brand insistence', which occurs when a consumer refuses to substitute one brand for another. Copeland was concerned with repertoire markets like groceries, where consumers often purchase more than one brand in a category. In these markets, brand insistence is an extreme form of share loyalty and is now called *sole-brand loyalty*.

Initially, research into this field was held back because there were no sound methods for measuring brand purchases. Retrospective surveys of purchase may be used but consumers can easily forget some of the purchases that they have made. To reduce this recall error, Churchill (1942) advocated the use of panels of consumers, who agreed to make regular reports about their household purchases. Initially, members were asked to provide weekly reports, usually by keeping a diary of daily purchases.

Box 2.1 Methods for measuring purchases

The methods for measuring purchases by panel members have now evolved. One early form of measurement was the 'dustbin' method, where the consumer retained all product wrappers and agency staff counted purchases from those wrappers. But all wrappers may not be kept, so this method is fallible. When bar codes became universal, panel members were given a barcode reader and they used this to record their purchases when they brought their groceries home. But this too is fallible because members may forget to process purchases. An alternative method was developed by Information Resources Inc. (IRI) in the USA. They provided the checkout scanners used in the stores of a number of towns. When panel members used a store in these towns, they showed an identification card and the store scanner sent data on their purchases directly to IRI for processing. IRI used this method to link sales to advertising, but as we report in Chapter 13 even this approach may have weaknesses.

The first regular panel was run by a newspaper, the *Chicago Tribune*. Brown (1953) used data from this panel and found that brand loyalty in a household fitted one of four patterns:

- Sole-brand loyalty.
- Divided brand loyalty (polygamous).
- Unstable loyalty (switching between brands).
- No brand loyalty (promiscuous).

Brown classified people on the basis of runs of purchase of brands in each category. Thus, AAAAAA shows sole-brand loyalty, a mix such as AABABA indicates loyalty divided between brand A and brand B, and AAABBB might indicate unstable loyalty with a switch from A to B, though it is not possible to distinguish true switching from divided loyalty without an extended period of measurement. It is now clear that divided (or multi-brand) loyalty is the usual pattern of grocery purchase (see Box 2.2).

Box 2.2 Reasons for divided loyalty

Why do households buy more than one brand in a category? There seem to be two sorts of explanation for having a portfolio of brands, which we call *genuine* and *apparent*.

Genuine portfolio

This may occur because:

1. There is little brand awareness and the consumer does not remember previously bought brands.
2. The category is one where consumers appreciate variety (biscuits, cereal, wine).
3. Customers buy discounted brands, which spreads their range of purchase.
4. The brand that the customer wanted was not available.

Apparent portfolio

1. The panel collects data on household expenditure. Members of a household may prefer different brands. Individually, they could be 100% loyal, but as a household, they may show divided loyalty.
2. A household may buy different brands in sub-categories such as biological and non-biological detergent. The household could be 100% loyal in each sub-category, but if the two forms of detergent are aggregated in market research data, the household will not be 100% loyal overall.

Share-of-category requirement

Cunningham's (1956) share-of-purchase approach is now standard and is illustrated with invented data in Table 2.1. In the table, the last three numbers of row 1 show that, over one year, Household 1 devotes 50% of purchases to Brand A, 30% to Brand B and 20% to Brand C. These percentages are the share-of-category requirement (SCR) measures that were introduced in Chapter 1. Another measure that is often used is first-brand loyalty. This is the share given to the most heavily bought brand (e.g. Household 1 has a first-brand loyalty of 50%). We see in Table 2.1 how purchase patterns can vary and that some households buy very little.

Exercise 2.1 Market share and average SCR

How do average SCRs relate to market share? Are they the same or different? Think about this before looking below.

The average SCRs per brand are quite close to market share. Purchase frequencies differ across households and light buyers tend to focus on market leaders (like consumers 6 and 10 in Table 2.1). This means that the average SCR of brand leaders tends to be a little above their market share: 51 of the 89 purchases in Table 2.1 are for Brand A, which gives it a market share of 57%, slightly below the mean SCR of 64% for Brand A.

Another measure is the average first-brand loyalty in a category. What is the average first-brand loyalty in Table 2.1? This is 50 + 60 + 67 + 50 + 64 + 100 + 56 + 50 + 80 + 100 divided by 10, which is nearly 68. Figures of 50–70% for first-brand loyalty are common for grocery brands.

Customers who buy a brand only once in a period must have an SCR of 100%; when the brand is bought twice, the SCR cannot be less than 50%; and when it is bought three times, the minimum is 33%. These small-number effects mean that customers who rarely purchase in a period tend to have higher SCRs than average and, conversely, those who are sole-brand loyal are often light buyers. When more cases are obtained by gathering data over a long period, the small-number effect disappears and then light buyers are found to be somewhat less loyal (Stern and Hammond, 2004).

Loyalty Proneness and its Correlates

Cunningham (1956) also wanted to know whether the loyalty that a consumer showed in one category was related to their loyalty in another; he called this *loyalty proneness*. In his research, Cunningham found little evidence of loyalty proneness. Among 21 correlations between share loyalties for individuals across different categories, the highest was 0.3. East et al. (1995a) found correlations averaging 0.46 between share-loyalty measures across four grocery categories in a survey. This evidence indicates that it is realistic to average a consumer's loyalty scores across a range of categories to obtain a score for individual loyalty proneness. Using this method, East et al. found that a customer's share loyalty to grocery brands was correlated with their store loyalty (measured as share), total supermarket spending, lack of interest in discounts and household income.

The association between brand loyalty and store loyalty that East et al. (1995a) found has been noted in other studies and a number of explanations have been offered. One possibility is that loyalty to retailer brands (own label, private label) explains the effect because the customer who buys more of a particular retailer brand has to do this by shopping with that retailer. However, Rao (1969) and East et al. (1995a) both found that the

Table 2.1 Hypothetical brand purchase data for one category (assume only three brands in the category)

Household	*Purchases of brands A, B and C in each month*										*Total purchases (all brands)*	*Share over year %*		
	Jan	*Feb*	*Mar*	*Apr*	*May*	*June*	*July Aug*	*Sept Oct*	*Nov*	*Dec*		*A*	*B*	*C*
1	A	B	B	A	C		AC	BA		A	10	50	30	20
2	B	C		C	A	AC	C	B	C	C	10	20	20	60
3	AA		AB	B	AA		ABA	AA	B	AB	15	67	33	0
4	C	A	A	B	C	CC	AA	ACB	A	A	14	50	14	36
5	AB		AB	A	B	C	AA	A	A		11	64	27	9
6	A			A		A		A			4	100	0	0
7	A		C	C		A	AB	AC		A	9	56	11	33
8	C	C		A	A		A	CA	C		8	50	0	50
9	A		A		A		B	A			5	80	20	0
10			A			A				A	3	100	0	0
Mean											9	64	15	21

Note: The last three columns give the SCR loyalty to brands of each household and the means at the base of these columns give the average SCR per brand; brand A, with a score of 64%, is more popular than brands B and C.

correlation persisted after removing store-brand loyalty, and Flavián, Martínez and Polo (2001) supported this finding with evidence that brand-loyal customers buy fewer private-label goods. Another explanation is that those who use a wider range of stores (low store loyalty) have a wider range of brands to choose from and this would tend to reduce their brand loyalty. A third possibility is that the correlation between brand loyalty and store loyalty may be explained if these forms of loyalty are habits, and that some people are more habit prone. This explanation is supported by the finding that those with high-brand and high-store loyalty are more likely to show another habit by having a routine day for supermarket shopping (East et al., 2000). Habit proneness could relate to personality or lifestyle. Habits, by their nature, tend to exclude new experience but they may save time and effort (see Box 2.3).

Box 2.3 The habits of Gilbert & George (from Cooke, 2007)

The artists Gilbert & George wear the same tailored suits day in, day out, and follow the same routines 365 days a year. They get up at 6.30am and go round the corner to a café for breakfast (they do not have a kitchen at home). They then work till 11, when it's back to the café for lunch, after which they put in a full afternoon until Paul O'Grady's show comes on ITV at 5pm … Dinner is taken in the same Turkish restaurant in Hackney every night … They are often asked about these routines and complain that no one ever seems to grasp that they stick to them, not for show, but to save time.

Other Habits

Purchase habits also apply to brands that we routinely *do not buy*. Most of us will admit to avoiding certain brands and service providers. Research by Hunt, Hunt and Hunt (1988) has thrown light on the way consumers hold grudges against such brands or providers. Hunt et al. find that grudges persist for a long time and usually begin with an emotionally upsetting experience as a customer. Grudge-holders may give negative word of mouth about the offending product when talking to others. Such brand avoidance could have dire consequences for a manufacturer, but despite this it has received little systematic study.

Beside brands, there are other product differentiators, and consumers can be loyal to pack size, price level, country of origin, flavour and formulation characteristics (Singh, Ehrenberg and Goodhardt, 2008). Romaniuk and Dawes (2005) found that, although people bought a variety of different wines, they tended to have a consistent pattern of preference for price tiers. The point that we emphasize here is that no emotional commitment is needed for such effects. We argue that most patterns of purchase, including loyalty, reflect habit rather than deeply felt commitment.

SECTION 2: THE RISE OF RELATIONSHIP MARKETING – CUSTOMER LOYALTY AS RETENTION

Relationship marketing (RM) has been described as 'attracting, maintaining and enhancing customer relationships' (Berry, 1983: 25). In a business-to-business (B2B) context, RM is an industrial philosophy that replaces the competitive transaction between buyer and seller with a more cooperative relationship (Grönroos, 1994). In a cooperative relationship, partners learn to trust each other and reveal more detail about their needs to the other, which improves mutual support. Relationship marketing has also been applied in the business-to-consumer (B2C) field, particularly by those concerned with services. As in B2B, some service relationships (e.g. dentist and patient) can be characterized by trust and cooperation but this does not apply so well when the business is large. There is still interdependence between a large firm and its customers, but any initiatives are likely to come from the firm and to be automated using a customer database. Firms call this customer relationship management (CRM). Much of the CRM conducted by large firms is designed to increase sales by exploiting customer purchase habits and this has little to do with cooperation. Most firms follow good-practice rules so that their customers can trust them to deliver consistent quality goods and services, but it does not go much further than that. For their part, customers can be quite calculating. For example, they may participate in loyalty schemes because they get a discount on purchases, or gain other benefits, rather than because they like the firm.

In relationship marketing, there is more emphasis placed on retaining existing customers than attracting new ones. For example, when a sudden lack of spending indicates that a customer has switched supermarkets, customized vouchers can be issued that may bring that customer back. Most firms are keen to see increases in satisfaction among customers because this is thought to retain them. This emphasis on retaining customers is based on the idea that it is more expensive to acquire customers than to retain them. So, instead of losing a customer and gaining another, it is cheaper not to lose the customer in the first place. A review by Rosenberg and Czepiel (1984) suggested that the average company spends six times as much acquiring a customer as keeping a customer. The 'six times as much' rule has now become an item of marketing folklore; the reality is that the relative cost varies with the category. For example, supermarket customers are acquired at little cost whereas credit card customers are expensive to acquire because they must be checked with credit agencies and offered financial inducements to switch.

The idea that customer retention increases long-term profit was given added impetus by Reichheld and his associates in a series of papers (Reichheld and Kenny, 1990; Reichheld and Sasser, 1990; Reichheld, 1993; Jones and Sasser, 1995; Reichheld, 1996a). These ideas were brought together in a book by Reichheld (1996b). Reichheld suggests that the value of a customer grows with the length of time that they remain a customer (called *customer tenure*). The reasons for this are illustrated in Figure 2.1. Reichheld argues that, for each added year of tenure, the profit from a customer rises as the acquisition cost is amortized, as the customer spends more (revenue growth), becomes easier to deal with (cost savings), introduces more new customers (referrals) and is more tolerant of higher prices (price premium). Also, and not shown in Figure 2.1, the longer customers stay, the more likely they are to remain in the following year. This analysis implies that current long-term customers are likely to give more profit than current short-term customers. An admirable feature of Reichheld's work is that he is very precise about the potential effects of customer retention so that others can test these claims. Reichheld's own evidence tends to be based on case studies. Case studies serve well for teaching about management practice, but as evidence they are not as valuable as systematic studies that are set up to test a hypothesis. Case study evidence is often already available when marketers begin to hypothesize and they may unintentionally focus on the evidence that fits their theory. Below, we review Reichheld's claims.

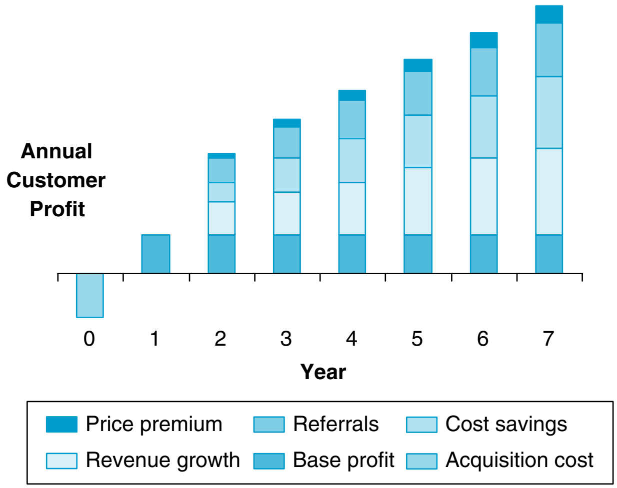

Figure 2.1 Factors in customer lifetime value (adapted from Reichheld, 1996b. Copyright © 1996 by Bain & Company, Inc.)

Customer Tenure and Profitability

We now review five assumptions for how customer loyalty might be turned into higher profits.

1. Do long-term customers spend more?

East, Hammond and Gendall (2006) reported on 17 services where customers were asked how much they spent and how long they had used the supplier. Examples of services were supermarkets, credit cards, dry cleaners, fashion stores, mobile phone airtime and car servicing. Of the 17 studies, only three showed a statistically significant positive association between tenure and spending: credit cards (UK), outdoor clothing (USA) and mobile phone airtime (UK). The average correlation between tenure and spend for the 17 studies was 0.09. This shows that, usually, there is no substantial association between tenure and spending that would justify management attention. In a few categories, long-term customers may spend significantly more than new customers, but such cases need to be established by research and not assumed by managers.

2. Are long-term customers cheaper to serve?

Long-term customers become familiar with company procedures and need less 'hand holding', but they may also exploit company services more. Dowling and Uncles (1997) first expressed doubt that long-term customers were cheaper to serve. Later, Reinartz and Kumar (2000, 2002) found that long-term customers in one firm made more use of the free services available, thus raising their cost to serve. They also found that loyalty programme costs increased with tenure. It seems that total costs do not routinely decline with tenure.

3. Do long-term customers refer more new customers than recently acquired customers?

Long-term customers may value their providers more for two reasons. First, they may *learn* more about the merits of the supplier's offering over time, and second, as those who dislike the supplier switch, the more appreciative customers remain. Despite these effects, Smith and Higgins (2000) and Fournier, Dobscha and Mick (1998) have illustrated how relationships can sometimes sour over time. Also, a brand may be salient when first acquired but may then become so familiar that consumers give it no thought and therefore do not talk about it. This loss of salience is more likely when the category does not change much (e.g. house insurance) and/or is frequently used (e.g. credit cards). When there is change, for example in the merchandise of a fashion store, the brand might be recommended repeatedly, but unchanging products such as motor insurance may lose salience and, as a result, recommendation rates will fall.

In their review of previous evidence, East et al. (2005) found either no association between recommendation rates and tenure (e.g. Kumar, Scheer and Steenkamp, 1995; Verhoef, Franses and Hoekstra, 2002) or a negative association (e.g. East, Lomax and Narain, 2001; von Wangenheim and Bayón, 2004). East et al. (2005) reported evidence from 23 studies on tenure and recommendation rates (shown in Table 2.2). They found that the overall association between tenure and recommendation was neutral (–0.01) but that individual associations ranged from significantly negative to significantly positive. The significant negative associations were for cheque accounts, credit cards and car insurance. The significant positive associations were for car servicing and main fashion stores. These positive effects may be because car servicing is infrequent so it takes time for a new customer to be reassured about the quality of work and because change in the merchandise of fashion stores may generate new comment. Car servicing was one of the service categories mentioned by Reichheld so in this specific case, the evidence supports his assertion that long-tenure customers recommend more. Notice that East et al. studied credit cards and car servicing twice in the UK (with different samples); the pairs of studies gave similar results and this makes the work more convincing. Overall, East et al. (2005) do not support Reichheld's claim that long-tenure customers recommend more than short-tenure customers. The association depends on the category and may be positive, negative or neutral.

Table 2.2 Correlations between customer tenure in 23 service studies (East et al., 2005)

Service (country)	*Customer tenure and recommendation*
Cheque book service (UK)	–.44*
Credit card (UK)	–.39*
Car insurance (UK)	–.36*
Credit card (UK)	–.28*
Main supermarket (UK)	–.09
Mobile airtime (UK)	–.04
Motor insurance (UK)	–.03
Dentist (UK)	–.03
Dry cleaning (UK)	–.02
Internet provider (UK)	0.02
Leisure centre (UK)	0.04
House contents insurance (UK)	0.04
Main supermarket (Mexico)	0.06
Main fashion store (UK)	0.07
Car insurance (Mauritius)	0.07
Favourite restaurant (UK)	0.08
Email (UK)	0.10
Hairdresser (Mexico)	0.12
Search engine (UK)	0.13
Main fashion store (Mexico)	0.18*
Car servicing (UK)	0.20*
Car servicing (Mauritius)	0.20*
Car servicing (UK)	0.25*
Mean	–.01

Note: *Significant at $p < 0.05$

4. Are long-term customers more price-tolerant?

Price tolerance is particularly exploited by providers of financial services. For example, firms may reduce interest rates on investments after an introductory period and rely on the inertia of customers to minimize switching. In addition, mortgage, insurance and credit card offers to new customers are often better than those to existing customers. These tactics may produce short-term profit for the firm but can irritate customers and lead to them switching; however, Dawes (2009) found that lower sensitivity to price increases was associated with customer tenure. Reichheld makes it clear that this sort of exploitation of customers is likely to be detrimental to the firm's profit in the longer run. In some fields, there may be no long-term price premium. In three B2C companies that they studied, Reinartz and Kumar (2002) found that long-tenure customers did not pay more than short-term customers for the same goods. They also found that long-tenure customers were *more* price-sensitive and that these customers expected better value when compared with recent customers.

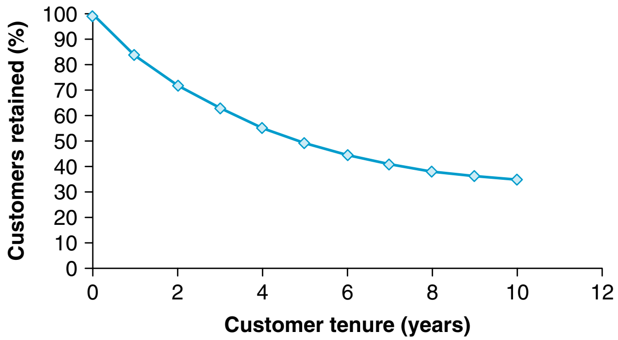

Figure 2.2 Normal customer survival pattern (adapted from Reichheld, 1996b)

5. Do defection rates decline with tenure?

In general, this is true. Reichheld finds that a company typically loses about 15% of its current customers in the first year and 50% over five years. If we follow a cohort of customers and examine them over a period, we find that fewer and fewer customers defect each year and that the decay curve levels out, as shown in Figure 2.2. A study by East and Hammond (1996) estimated defection rates for a range of groceries and found an average of 15% defection in the first year. In the second year, defection halved. This means that the customer's likelihood of defection declines with tenure. However, there must come a time when changes in life stage (and even death) mean that customers no longer need the category and defection may then rise. In addition, there are some products and services which are only used for a limited period, for example disposable nappies (diapers) and crèche facilities, and here we would see a different pattern from that shown in Figure 2.2.

The Strategy of Customer Retention

The evidence summarized above indicates that the benefits of customer retention in consumer markets have been exaggerated, and that those benefits differ substantially between categories. One implication of this evidence is that customer acquisition may bring more advantage, relative to retention, than is conventionally recognized. We need more evidence of the relative cost of sales gains through customer acquisition and retention, and we also need more evidence on how increases in market share come about – are such increases due primarily to the acquisition or retention of customers? Two relevant studies are by East and Hogg (1997) and Riebe et al. (2014). East and Hogg found that, when Tesco overtook Sainsbury's in 1995 as the leading UK supermarket, the Tesco gains came equally from increased customer acquisitions and reduced defection and Sainsbury's lost customers because of reduced recruitment, not because of increased defection. Riebe et al. found that acquisition was much more important than defection in explaining market share changes for (i) drug prescriptions among doctors and (ii) the choice of main bank for consumer finance customers. Sharp (2010), and more recently Romaniuk and Sharp (2016), also argue that brand gains come mainly from customer acquisition and they present evidence from several studies to support this view.

There are a number of other points that are relevant to the retention versus acquisition argument. First, it is quite difficult to reduce defection. Reichheld's calculations suggest large gains in profit if customer defection is reduced from 15% to 10%, but a one-third drop in defection is a substantial amount. Reichheld did give some examples where defection averaged only a few per cent a year, but in services where there is a specific location for service delivery, a large part of the defection occurs because of the relative inaccessibility of the service. For example, East, Lomax and Narain (2001) found that 43% of the defections from a main supermarket were because the customer had moved home or because a more convenient store had been built nearby. This sort of customer loss is very difficult to counter.

A second point is mentioned by Reichheld but is sometimes forgotten by those who espouse his arguments. This is that those customers who are retained by a successful marketing intervention or service improvement are not necessarily typical of the other customers of the service provider. Customers who defect are obviously more mobile; when these customers are retained through a marketing intervention, they may be more likely to defect later.

A third point is that it is in the nature of loyal customers to stay put. They may not need incentives to stay; if this is so, investments in rewards and product improvements may give little return with this group. Similarly, it may be very difficult to prise away the loyal customers of competitors. This leads to a paradox of loyalty. The most loyal customers may have the highest value but they may not be the best segment for marketing intervention because of their inertia. So which customers should be targeted when we have evidence of their loyalty? Should you target your high-share customers, who cannot increase their share much and also may not be willing to change their habits? Or medium-share customers, who can increase their share and may be more changeable? Or low-share customers, who can increase their share substantially but again may be difficult to keep? This is a complicated problem which requires category-specific research.

Although customer retention is emphasized in relationship marketing, this evidence shows that customer acquisition may be more important. Reichheld (1996b) does not ignore customer acquisition. He gives the example of the MBNA credit card organization. This company managed to acquire and retain high-spending customers by the careful design of the service and by well-chosen targeting. It is also well accepted that not all customers are profitable. Company costs can exceed returns on small-spending customers and sometimes retail facilities are so overstretched that more profit is made when some customers defect.

Exercise 2.2 Brand switching

Consumers switch for many reasons which may vary across categories. Your own experience may be a guide. If you have switched banks, mobile phone companies, doctors, hairdressers, supermarkets or alcoholic beverages, why did you do this? Choose two categories in which you have switched your main brand:

1. List the key reasons for your switch.
2. Identify three things the supplier could have done to try to retain you.
3. Evaluate how effective each of these supplier initiatives would have been in your particular case.

Loyalty Programmes

Many B2C companies now have loyalty programmes. These programmes have been introduced for different reasons. Some companies saw a genuine interest in rewarding their most loyal customers, and business books like *The Loyalty Effect* (Reichheld, 1996b) encouraged them in this direction. Other companies felt forced to imitate their competitors for fear of losing customers. In some industries, loyalty programmes increased the overall costs for all players without any real effect on loyalty (a zero-sum game). Overall, recent academic research suggests that loyalty programmes generate small effects (Verhoef, 2003; Lewis, 2006; Leenheer et al., 2007) or no effect on purchase behaviour (DeWulf, Odekerken-Schroder and Iacobucci, 2001; Mägi, 2003). It is likely that loyalty programmes have different effects on different consumer segments; Liu (2007) found more effect for initially light buyers, while heavy buyers made little change in their purchasing although they claimed rewards.

However, given that these programmes are in place, how should they be optimized? Drèze and Nunes (2011) developed a programme of research to examine how insights from consumer behaviour can help marketers design and improve their loyalty programmes. In many loyalty programmes, credits can be accumulated until a reward level is achieved (e.g. a free coffee after 10 purchases). Consumers work towards the goal of obtaining the reward and, once the reward is obtained, they have to build up their credits again. Drèze and Nunes examined what happens to consumption behaviour after a reward has been obtained. One might expect a post-reward reset and deceleration in purchases after the consumer attains the reward. Using a large-scale dataset from a frequent-flier programme, the authors show that, instead, success is followed by an increase in effort to reach the same goal again. Interestingly, this effect is only obtained when success requires perseverance. Successes that come too easily, when small rewards are frequently obtained, do not have this effect. Creating larger rewards with greater purchase requirements leads to more overall effort. In a subsequent experimental study, Drèze and Nunes showed that some form of learning takes place when a goal is attained which affects action designed to secure the second and subsequent rewards. Overall, this work shows that cleverly designed loyalty programmes really can stimulate purchases.

A loyalty programme can also be designed to give consumers additional incentives to purchase, without additional cost. In a field experiment at a professional car wash, Nunes and Drèze (2006) randomly distributed two types of loyalty cards. For the first type, eight car wash purchases were required for a free car wash. With the second type of card, ten purchases were necessary but, as part of a special promotion, two free stamps were given so that the number of required new purchases was also eight. The respective redemption rates were 19% and 34%. Framing the task as already begun apparently enhanced the effort to reach the reward goal, although the distance to the goal was no different between the two groups. Consumers in that framing condition also accelerated their purchases: they left 2.9 fewer days between washes.

Another design feature of loyalty programmes is that they can have a hierarchical structure with different tiers to give the highest spenders a special status. Companies have to decide on the number of tiers they want to introduce (a single tier is an option), and in the case of multiple tiers on the number of customers they want to admit to each. Drèze and Nunes (2009) show, in a series of experiments, that the desire for tier status can drive behaviour. Companies face the trade-off of making as many customers as possible feel special, without disenfranchising the very best customers by diluting their special status. The authors show that a three-tiered programme is more satisfying than a programme with two tiers, and this applies to all customers, not just those qualifying for elite status. The size of the top tier can be increased without decreasing the status perceptions of its existing members, when a second tier is added. Adding a third tier enhances the self-perceptions of status of those in the second tier. (Other aspects of loyalty programmes are considered in Chapter 11.)

SECTION 3: COMBINATION DEFINITIONS OF LOYALTY

So far we have described loyalty in terms of share, retention, recommendation and affective responses such as satisfaction. We have not combined these different forms of loyalty into a more complex definition. Most marketing scientists use a single behavioural definition, usually share or retention (see East et al., 2005). By contrast, most of those who have theorized about loyalty suggest that loyalty is not behaviour alone, and many feel strongly that attitude should appear in the definition. For example, Jacoby and Olson (1970) defined loyalty as the biased (i.e. non-random) behavioural response (i.e. purchase), expressed over time, by some decision-making unit (e.g. household, person), with respect to one or more alternative brands, which is a function of psychological processes (decision making, evaluation). Oliver (1999: 34) emphasized the role of feeling as well as behaviour when he described loyalty as 'a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior'. Also, Day (1969) suggested that 'true' or intentional loyalty occurred when there was a positive attitude to the brand, and he distinguished this from 'spurious' loyalty where purchase of the brand was not supported by any commitment. Another widely quoted paper by Dick and Basu (1994) used Day's distinction